

**OLIVET COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2006**

# CONTENTS

## Page

<b>Independent auditors' report</b> .....	iv - v
<b>Management's Discussion and Analysis</b> .....	vi - xiii
<b>Basic financial statements</b>	
Government-wide financial statements	
Statement of net assets .....	1
Statement of activities .....	2
Fund financial statements	
Balance sheet - governmental funds .....	3
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities .....	5
Fiduciary funds	
Statement of fiduciary net assets.....	6
Statement of changes in fiduciary net assets.....	7
Notes to financial statements.....	8 - 25
<b>Required supplementary information</b> .....	26
Budgetary comparison schedule - general fund .....	27
<b>Additional information</b> .....	28
Nonmajor governmental fund types	
Combining balance sheet .....	29
Combining statement of revenues, expenditures, and changes in fund balances .....	30

## CONTENTS

### Page

Special revenue funds	
Combining balance sheet .....	31
Combining statement of revenues, expenditures, and changes in fund balances .....	32
Debt service funds	
Combining balance sheet .....	33
Combining statement of revenues, expenditures, and changes in fund balances .....	34
Fiduciary funds	
Schedule of cash receipts, disbursements and liabilities by activity - agency fund.....	35 - 39
Long-term debt	
Bonded debt .....	40 - 45
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	46 - 47



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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Olivet Community Schools  
Olivet, Michigan

August 4, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Olivet Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated August 4, 2006 on our consideration of Olivet Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiii and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Olivet Community Schools' basic financial statements. The additional information on pages 29 to 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Olivet Community Schools' (OCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. The District's financial statements are immediately following this section.

### **FINANCIAL HIGHLIGHTS**

The District's general fund financial situation decreased from the 2005 fiscal year to 2006, ending with a fund balance of \$1,573,301 or 14.9% of general fund expenditures. Increasing enrollments provided a positive impact against increasing health insurance and retirement rates.

As anticipated, our athletic fund expenditures exceeded the revenue earned this year, with this amount budgeted in the general fund to cover the shortfall of the athletic fund. This occurred despite very successful athletic teams in several high revenue sports.

Our food service program has continued to show an improvement in the fund balance from the prior year. Our new food service supervisor has been able to make some much needed equipment purchases and plans to continue to upgrade our program and facilities. Again this year the food service program has paid a portion of the utility and custodial expenses to the District's general fund. Also this year our District's Health and Wellness Committee laid the groundwork for implementing our District Nutrition Policy and improving the nutritional value of the school lunch and breakfast programs.

For the 2005-2006 school year, with our capital projects fund we were able to complete several small projects at the Olivet Middle School and High School and the athletic fields. This fall we are completing the improvements at our bus garage which will complete our 2002 School Building and Site Bond issue.

In December 2005 we were able to refinance many of our 2002 Bonds. The 2005 Bond Refunding is saving the district in excess of \$555,000 of future interest payments.

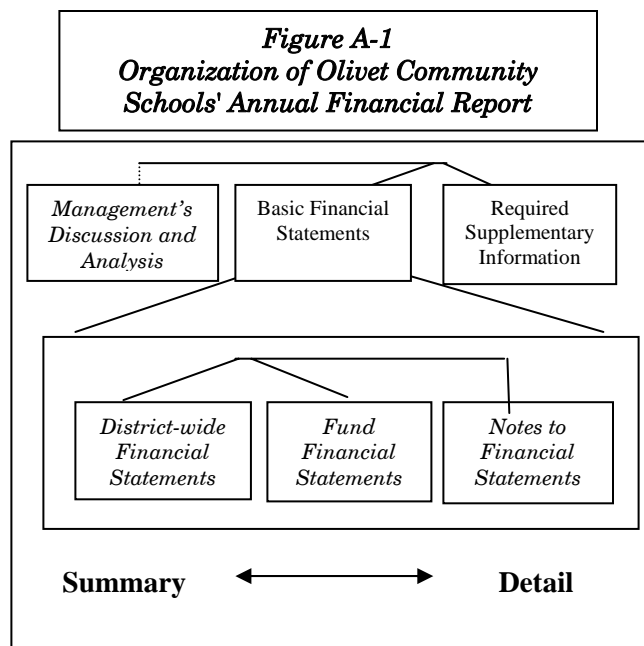
Total general fund revenues exceeded \$10.5 million dollars with spending at nearly \$10.6 million dollars; total general fund revenues reflected a deficiency against expenditures and transfers by nearly \$216,000. With the current fund balance of 14.6% of expenditures and transfers, the District will fall short of having the necessary funds available to meet expenses. This upcoming year the District will be participating in a short-term cash flow loan for the fiscal year 2006-2007.

Although student membership increased by 60.47 students, and a slight increase in state aid funding of \$175.00 per student (2.6%) the District ended the year with a deficiency in the general fund balance due to the rising cost of medical insurance, retirement rates, and energy costs.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>* Statement of net assets</li> <li>* Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>* Balance sheet</li> <li>* Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>* Statement of fiduciary net assets</li> <li>* Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Olivet's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.



## **DISTRICT-WIDE STATEMENTS**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – The District’s combined net deficit was slightly more on June 30, 2006 than the prior year, increasing by \$361,692 to \$1,153,917. The other impact is District depreciation, which was \$695,675, compared to District total capital purchases in 2006 of \$604,358.

<b>Table A-3</b>		
<b>Olivet Community Schools</b>		
	2006	2005
Current assets	\$ 3,565,687	\$ 4,089,954
Capital assets	19,139,990	19,097,579
Total assets	22,705,677	23,187,533
Long-term debt outstanding	21,655,482	21,700,873
Other liabilities	2,204,112	2,278,885
Total liabilities	23,859,594	23,979,758
Net assets (deficit)		
Invested in capital assets, net of related debt	(2,698,810)	(2,251,010)
Restricted for debt service	197,046	105,138
Unrestricted	1,347,847	1,353,647
Total net assets (deficit)	\$ (1,153,917)	\$ (792,225)

<b>Table A-4</b>		
<b>Changes in Olivet Community Schools' Net Assets</b>		
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 370,583	\$ 373,005
Federal and state operating grants	1,022,807	977,806
General revenues:		
Property taxes	1,826,786	1,717,306
Investment	42,597	98,651
State aid - unrestricted	8,631,896	8,014,070
ISD - special education	458,601	466,632
Other	74,044	52,628
Total revenues	12,427,314	11,700,098
Expenses:		
Instruction	6,853,217	6,352,926
Support services	3,574,841	3,410,723
Community services	26,640	26,900
Food services	424,459	373,253
Athletics	305,767	316,876
Interest on long-term debt	908,407	866,261
Unallocated depreciation	695,675	553,613
Total expenses	12,789,006	11,900,552
Change in net assets	\$ (361,692)	\$ (200,454)

## **District Governmental Activities**

The District's good financial shape has come about through a number of areas.

- Proposal, A which established the student foundation, grant concept, and has increased that amount from \$4,352 per student in 1995 to \$6,875 per student in 2006.
- Student count in the District has seen a slight increase. In fiscal year 2000 state aid membership was 1,309 and in six years has increased to 1,369. This is a 4.6% over the past six years. We anticipate the increase in student growth to continue in the upcoming years.
- The District settled a two-year contract with the teachers for the school years 2005-2007. Teacher's salaries and benefits were negotiated for a two-year contract. A reasonable conservative approach continues to be taken in negotiations.
- Through the community support of our recent bond issue, we have significantly improved our educational facilities.
- Through budget cuts, the District has saved money by lowering non-instructional costs.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balances of \$2.280 million compared to \$2.668 million in 2005. The general fund, fund balance decreased by \$215,678 for the year. The major capital projects fund, fund balance decreased by \$248,553 as the District is nearing the completion of the construction project.

Total fund balances decreased and the athletic fund had expenditures greater than revenues. The general fund contribution to the athletic fund brought this fund close to its expected balance of matching revenues to expenditures. The food service fund balance increased by \$8,600 this year.

### **General Fund and Budget Highlights**

During the 2006 fiscal year the original District budget was amended three times to reflect changes which affected the District.

The initial amendment took place in late fall, following the student count and staff changes had been determined. Winter amendments took place to account for the unfavorable information received from the state government regarding school financing. All programs and staff were maintained, only necessary expenditures were made to compensate for the decrease in funding from the state.

The final amended budget was with expenditures and transfers being \$218,002 higher than revenue. Final results indicate that revenues came in slightly higher (\$4,055) than were anticipated, and expenses including transfers also came in slightly higher (\$1,731). The net result was a negative change in fund balance of \$215,678, decreasing the fund balance to \$1,573,301 (14.9%) of general fund expenditures.

The difference between the original District budget and the final amended budget for 2005-06 are a difference of approximately 2.05% for both revenue and expenditures. The final updated change in fund balance from the original budget to the final budget is less than \$2,400 or 1%.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

<b>Table A-5</b> <b>Olivet Community Schools' Capital Assets</b>				
	<b>2006</b>			<b>2005</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Land	\$ 281,800	\$	\$ 281,800	\$ 116,900
Construction in progress	1,950		1,950	1,950
Buildings and improvements	23,277,988	5,516,308	17,761,680	17,945,209
Technology	502,653	384,087	118,566	169,471
Furniture and fixtures	765,694	552,915	212,779	231,687
Machinery and equipment	775,362	523,325	252,037	277,243
Transportation equipment	788,351	410,901	377,450	355,119
<b>Total</b>	<b>\$ 26,393,798</b>	<b>\$ 7,387,536</b>	<b>\$ 19,006,262</b>	<b>\$ 19,097,579</b>

Capital asset purchases throughout fiscal 2006 included building improvements, a land purchase, and buses. The total was nearly \$605,000. For more information see Note 4.

### LONG-TERM DEBT

At year-end the District had \$22,464,347 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$553,932 while there were increases during the year of \$577,855.

<b>Table A-6</b> <b>Olivet Community Schools</b> <b>Outstanding Long-Term Debt</b>		
	<b>2006</b>	<b>2005</b>
General obligation bonds	\$ 16,057,692	\$ 16,605,000
Durant - limited obligation bonds	80,807	87,431
School bond loan fund	5,570,701	5,172,868
Land Contract	129,600	
Severance benefits	625,547	575,125
	<b>\$ 22,464,347</b>	<b>\$ 22,440,424</b>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- While the 2006-2007 foundation allowance has been finalized by the State of Michigan, the foundation allowance represents 86 percent of total general fund revenue. The weak state economy could require pro-rations in state aid.
- Negotiations between the Board of Education are settled for the current year, however continued careful attention needs to be given to the rising costs of health insurance and retirement system costs.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Student count is projected to slightly increase over the next five years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Olivet Community Schools, 255 First Street, Olivet, Michigan 49076.

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 719,156
Investments	814,479
Receivables:	
Other governmental units	1,813,229
Taxes receivable	102,100
Other	2,964
Prepaid expenses	5,879
Inventories	39,723
Restricted cash and cash equivalents - capital projects	68,157
<b>TOTAL CURRENT ASSETS</b>	<b>3,565,687</b>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	133,728
Capital assets	26,393,798
Less accumulated depreciation	(7,387,536)
<b>TOTAL NONCURRENT ASSETS</b>	<b>19,139,990</b>
<b>TOTAL ASSETS</b>	<b>\$ 22,705,677</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 176,641
Accrued interest	109,434
Accrued salaries and related items	1,062,959
Deferred revenue	46,213
Current portion of long-term obligations	756,736
Current portion of severance benefits	52,129
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,204,112</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	21,082,064
Noncurrent severance benefits	573,418
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>21,655,482</b>
<b>TOTAL LIABILITIES</b>	<b>23,859,594</b>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(2,698,810)
Restricted for debt service	197,046
Unrestricted	1,347,847
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>(1,153,917)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 22,705,677</b>

**OLIVET COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 6,853,217	\$ 23,275	\$ 647,233	\$ (6,182,709)
Support services	3,574,841		168,433	(3,406,408)
Community services	26,640	29,111		2,471
Food services	424,459	228,889	204,155	8,585
Athletics	305,767	89,308		(216,459)
Interest on long-term debt	908,407		2,986	(905,421)
Unallocated depreciation	695,675			(695,675)
Total governmental activities	<u>\$ 12,789,006</u>	<u>\$ 370,583</u>	<u>\$ 1,022,807</u>	<u>(11,395,616)</u>
General revenues:				
Property taxes, levied for general purposes				536,033
Property taxes, levied for debt service				1,290,753
Investment earnings				42,597
State sources				8,631,896
ISD special education allocation				458,601
Other				74,044
Total general revenues				<u>11,033,924</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>				(361,692)
<b>NET ASSETS (DEFICIT), beginning of year</b>				<u>(792,225)</u>
<b>NET ASSETS (DEFICIT), end of year</b>				<u>\$ (1,153,917)</u>

OLIVET COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General fund	2002 Capital projects fund	2005 debt fund	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash and equivalents	\$ 288,582	\$	\$ 142,874	\$ 287,700	\$ 719,156
Investments	681,957			132,522	814,479
Receivables:					
Other governmental units	1,810,667			2,562	1,813,229
Due from other funds	81			3,520	3,601
Due from fiduciary funds	1,858				1,858
Taxes receivable	32,273		20,948	48,879	102,100
Other	729			377	1,106
Prepaid expenses	5,879				5,879
Inventories	34,939			4,784	39,723
Restricted cash and cash equivalents - capital projects		68,157			68,157
TOTAL ASSETS	\$ 2,856,965	\$ 68,157	\$ 163,822	\$ 480,344	\$ 3,569,288

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$ 176,641	\$	\$		\$ 176,641
Accrued salaries and related items	1,061,009			1,950	1,062,959
Deferred revenue	42,494			3,719	46,213
Due to other funds	3,520			81	3,601
TOTAL LIABILITIES	1,283,664			5,750	1,289,414

	General fund	Capital projects fund	2005 debt fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:					
Reserved for inventory	\$ 34,939	\$	\$	\$ 4,784	\$ 39,723
Reserved for debt service			163,822	142,658	306,480
Reserved for capital projects		68,157		185,744	253,901
Designated for severance benefits	625,547				625,547
Designated for subsequent year's expenditures	222,545				222,545
Undesignated	690,270			141,408	831,678
TOTAL FUND BALANCES	1,573,301	68,157	163,822	474,594	2,279,874
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,856,965	\$ 68,157	\$ 163,822	\$ 480,344	\$ 3,569,288

Total governmental fund balance					\$ 2,279,874
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Amounts reported for governmental activities in the statement of net assets are different because:

Value of deferred charges for bond issuance costs	\$ 139,807	
Accumulated amortization	(6,079)	
		133,728

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is	26,393,798	
Accumulated depreciation is	(7,387,536)	
		19,006,262

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(22,071,508)
Other long-term debt	(129,600)
Bonds premium	(98,184)
Deferred amount of bond refunding	460,492
Severance benefits	(625,547)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid	(109,434)

Net assets (deficit) of governmental activities	\$ (1,153,917)
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OLIVET COMMUNITY SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General fund	2002 Capital projects fund	2005 debt fund	Other nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ 537,293	\$	\$ 386,577	\$ 904,176	\$ 1,828,046
Investment income	25,573	15,919		1,105	42,597
Other	97,900	50	5,191	338,341	441,482
Total local sources	660,766	15,969	391,768	1,243,622	2,312,125
State sources	9,187,945			32,851	9,220,796
Federal sources	252,993			180,914	433,907
Incoming transfers and other transactions	458,601				458,601
Total revenues	10,560,305	15,969	391,768	1,457,387	12,425,429
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Basic programs	5,621,823				5,621,823
Added needs	1,200,519				1,200,519
Adult and continuing education	30,875				30,875
Total instruction	6,853,217				6,853,217
Support services:					
Pupil	282,188				282,188
Instructional staff	139,981				139,981
General administration	339,075				339,075
School administration	652,398				652,398
Business	161,357				161,357
Operations and maintenance	1,130,008				1,130,008
Transportation	754,071				754,071
Central	224,709				224,709
Total support services	3,683,787				3,683,787

	General fund	Capital projects fund	2005 debt fund	Other nonmajor governmental funds	Total governmental funds
<b>EXPENDITURES (Concluded):</b>					
Current (Concluded):					
Community services	\$ 26,640	\$	\$	\$	\$ 26,640
Food service				424,459	424,459
Athletics				305,767	305,767
Capital outlay		264,522		164,000	428,522
Debt service:					
Principal repayment			75,000	706,024	781,024
Interest and other fiscal charges			152,946	484,864	637,810
Bond issuance cost			139,807		139,807
Total expenditures	10,563,644	264,522	367,753	2,085,114	13,281,033
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(3,339)	(248,553)	24,015	(627,727)	(855,604)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from refunding debt			9,605,000		9,605,000
Bond premium			102,647		102,647
Payment to refunded bond escrow agent			(9,567,840)		(9,567,840)
Sale of school assets	3,145				3,145
Proceeds from land contract				144,000	144,000
Proceeds from school bond loan fund				181,000	181,000
Operating transfers in				215,484	215,484
Operating transfers out	(215,484)				(215,484)
Total other financing sources (uses)	(212,339)		139,807	540,484	467,952
<b>NET CHANGE IN FUND BALANCES</b>	(215,678)	(248,553)	163,822	(87,243)	(387,652)
<b>FUND BALANCES:</b>					
Beginning of year	1,788,979	316,710		561,837	2,667,526
End of year	\$ 1,573,301	\$ 68,157	\$ 163,822	\$ 474,594	\$ 2,279,874

**OLIVET COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

**Net change in fund balances total governmental funds** \$ (387,652)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(695,675)
Capital outlay	604,358
Proceeds from capital assets sold	(3,145)
Gain on sale of capital assets	3,145

Accrued interest on bonds is recorded in the statement of activities

when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	118,167
Accrued interest payable, end of the year	(109,434)

Proceeds of long-term debt are other financing sources and principal payments are expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Proceeds from debt refunding	(9,605,000)
Proceeds from land contract	(144,000)
Payment on debt	9,811,024
Premium on debt	(102,647)
Bond issuance cost	139,807
Deferred loss on refunding	481,423
Amortization bond issuance costs	(6,079)
Amortization bond premium	4,463
Amortization of deferred amount on bond refunding	(20,931)
Proceeds from school bond loan fund	(181,000)
Long-term interest on school bond loan fund (accrued)	(216,834)

Revenue is recorded on the accrual method in the statement of activities; in the

governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(1,260)
---	---------

Compensated absences are reported on the accrual method in the statement of activities,

and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued severance benefits, beginning of the year	575,125
Accrued severance benefits, end of the year	(625,547)

<b>Change in net assets of governmental activities</b>	<b>\$ (361,692)</b>
--	---------------------

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2006**

	<b>Private purpose trust fund</b>	<b>Agency fund</b>
<b>ASSETS</b>		
Cash and equivalents	\$ 54,676	\$ 103,343
Accounts receivable		527
<b>TOTAL ASSETS</b>	<b>\$ 54,676</b>	<b>\$ 103,870</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 4,000	\$ 3,333
Due to student groups		98,679
Due to Olivet Community Schools		1,858
<b>TOTAL LIABILITIES</b>	<b>4,000</b>	<b>103,870</b>
<b>NET ASSETS:</b>		
Reserved for trust activities	50,676	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 54,676</b>	<b>\$ 103,870</b>

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**YEAR ENDED JUNE 30, 2006**

	<b>Private purpose trust fund</b>
<b>ADDITIONS:</b>	
Interest earnings	\$ 818
Donations	<u>15,032</u>
	15,850
<b>DEDUCTIONS:</b>	
Other	<u>14,605</u>
<b>CHANGE IN NET ASSETS</b>	1,245
<b>NET ASSETS:</b>	
Beginning of year	<u>49,431</u>
End of year	<u><u>\$ 50,676</u></u>

## **OLIVET COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Olivet Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

The Olivet Community Schools (the "District") is governed by the Olivet Community Schools' Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by Governmental Accounting Standards Board Nos. 14 and 39.

#### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2005 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental fund.

The *2002 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

Revenue and bond proceeds	<u>\$ 12,486,186</u>
Expenditures	<u>\$ 12,418,029</u>

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* account for the servicing of general long-term debt.

The *capital projects fund* accounts for the receipt of debt proceeds, transfers from the general fund, other revenue and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.



**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**State Revenue (Concluded)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - non-homestead	18.0000
Debt service fund - 2003	4.7000
Debt service fund - 2002	4.3500

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	30 - 50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

7. Long-term Obligations (Concluded)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2006, the District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF - MICMS	\$ 641	0.0027	AAAm	0.08%
MILAF - MIMAX	813,838	0.0027	AAAm	99.92%
Total fair value	<u>\$ 814,479</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$621,909 of the District's bank balance of \$721,909 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits.

Fiduciary fund balances are not included in the above balances. As of June 30, 2006, \$59,476 of the Fiduciary fund's bank balance of \$159,913 was exposed to custodial credit risk because is was uninsured and uncollateralized. The carrying amount of all deposits is \$945,332.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)**

The above amounts as previously reported in Note 3:

Deposits	\$ 945,332
Investments	<u>814,479</u>
	<u><u>\$ 1,759,811</u></u>

The above amounts are reported in the financial statements as follows:

Cash Fiduciary funds	\$ 158,019
Cash - District-wide	787,313
Investments - District-wide	<u>814,479</u>
	<u><u>\$ 1,759,811</u></u>

**OLIVET COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the District's capital assets at June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 116,900	\$ 164,900	\$	\$ 281,800
Construction in progress	1,950			1,950
Total capital assets not being depreciated	<u>118,850</u>	<u>164,900</u>		<u>283,750</u>
Capital assets, being depreciated:				
Buildings and improvements	22,962,798	315,190		23,277,988
Furniture and fixtures	758,638	7,056		765,694
Machinery and equipment	758,228	17,134		775,362
Technology	497,323	5,330		502,653
Transportation equipment	785,850	94,748	92,247	788,351
Total capital assets, being depreciated	<u>25,762,837</u>	<u>439,458</u>	<u>92,247</u>	<u>26,110,048</u>
Accumulated depreciation:				
Buildings and improvements	5,017,589	498,719		5,516,308
Furniture and fixtures	526,951	25,964		552,915
Machinery and equipment	480,985	42,340		523,325
Technology	327,852	56,235		384,087
Transportation equipment	430,731	72,417	92,247	410,901
Total accumulated depreciation	<u>6,784,108</u>	<u>695,675</u>	<u>92,247</u>	<u>7,387,536</u>
Net capital assets being depreciated	<u>18,978,729</u>	<u>(256,217)</u>		<u>18,722,512</u>
Net governmental capital assets	<u>\$ 19,097,579</u>	<u>\$ (91,317)</u>	<u>\$</u>	<u>\$ 19,006,262</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$695,675. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.



**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2006 consist of the following:

Other governmental units:

State aid	\$ 1,656,261
ISD special education final payment	150,673
Other	<u>6,295</u>
	<u><u>\$ 1,813,229</u></u>

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

	General obligation and serial bonds	School bond loan fund	Severance benefits	Land contract	Limited obligation Durant bonds	Total
Balance, July 1, 2005	\$ 16,605,000	\$ 5,172,868	\$ 575,125	\$	\$ 87,431	\$ 22,440,424
Additions	9,724,115	397,833	50,422	144,000		10,316,370
Deletions	<u>10,271,423</u>			<u>14,400</u>	<u>6,624</u>	<u>10,292,447</u>
Balance, June 30, 2006	16,057,692	5,570,701	625,547	129,600	80,807	22,464,347
Less current portion	<u>720,000</u>		<u>52,129</u>	<u>5,082</u>	<u>31,654</u>	<u>808,865</u>
Total due after one year	<u><u>\$ 15,337,692</u></u>	<u><u>\$ 5,570,701</u></u>	<u><u>\$ 573,418</u></u>	<u><u>\$ 124,518</u></u>	<u><u>\$ 49,153</u></u>	<u><u>\$ 21,655,482</u></u>

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term obligation debt at June 30, 2006 is comprised of the following:

2002 general obligation bonds due in annual installments of \$285,000 to \$380,000 through May 1, 2012 with interest from 2.15% to 5.125%	\$ 1,990,000
2003 refunding serial bonds due in annual installments of \$295,000 to \$410,000 through May 1, 2020 with interest from 2.00% to 4.10%	4,900,000
2005 refunding bonds due in annual instalments of \$25,000 to \$700,000 through May 1, 2028 with interest from 3.5% to 4.25%	9,530,000
Less: deferred amount on bond refunding	(460,492)
Plus: premium on bond refunding	98,184
	<hr/> 16,057,692
Limited obligation (Durant) bonds due in annual installments of \$7,270 to \$31,654 through May 2013 with an interest rate of 4.76%. Certain state aid payments have been pledged as security.	80,807
	<hr/> 16,138,499
Borrowings from the State of Michigan under the School Bond Loan Fund Program, including interest	5,570,701
Land contract due in annual installments of \$10,253 with balloon payment due April 30, 2009, interest at 3.99%	129,600
Obligation under contract for severance benefits	625,547
	<hr/> \$ 22,464,347

Interest expense (all funds) for the year ended June 30, 2006 was \$637,007.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

On December 15, 2005, Olivet Community Schools issued general obligation bonds of \$9,605,000 with an interest rate ranging from 3.5% to 5.0% to advance refund bonds with an interest rate ranging from 4.25% to 5.5%. The bonds mature on May 1, 2028. The general obligation bonds were issued at a premium after paying issuance costs of \$139,807 which includes the underwriters discount, the net proceeds were \$9,567,840. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in a irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$556,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$357,000.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$13,935,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term debt outstanding as of June 30, 2006, including interest of \$7,521,279 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 756,736	\$ 656,601	\$ 1,413,337
2008	742,554	627,134	1,369,688
2009	866,850	605,225	1,472,075
2010	752,979	575,335	1,328,314
2011	763,359	549,056	1,312,415
2012 - 2016	4,037,929	2,280,539	6,318,468
2017 - 2021	4,040,000	1,430,058	5,470,058
2022 - 2026	3,275,000	709,503	3,984,503
2027 - 2028	1,395,000	87,828	1,482,828
Total	16,630,407	7,521,279	24,151,686
Deferred amount on bond refunding	(460,492)		(460,492)
Premium on bond refunding	98,184		98,184
Accumulated severance benefits	625,547		625,547
School bond loan fund	5,570,701		5,570,701
	<u>\$ 22,464,347</u>	<u>\$ 7,521,279</u>	<u>\$ 29,985,626</u>

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2006 are as follows:

Receivable Fund		Payable Fund	
General	\$ 81	General	\$ 3,520
Special revenue	3,520	Special revenue	81
	<u>\$ 3,601</u>		<u>\$ 3,601</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)**

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% through September 30, 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$1,018,000, \$906,000 and \$775,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 10 - TRANSFERS**

The general fund transferred \$215,484 to the athletic fund during the current fiscal year to subsidize operations of the athletic fund.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - COMMITMENTS**

The District continues to complete its capital projects program. Management estimates they have another \$68,517 of expenditures to complete the various projects.

**NOTE 12 - SUBSEQUENT EVENTS**

The District has approved borrowing \$600,000 for fiscal year 2007. The note has an interest rate of 3.68%. The note is secured by the full faith and credit of the District as well as pledged state aid.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**OLIVET COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 578,415	\$ 661,788	\$ 660,766	\$ (1,022)
State sources	8,949,316	9,189,065	9,187,945	(1,120)
Federal sources	284,706	245,397	252,993	7,596
Incoming transfers and other transactions	456,420	460,000	458,601	(1,399)
Total revenues	10,268,857	10,556,250	10,560,305	4,055
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	5,466,119	5,650,734	5,621,823	28,911
Added needs	1,214,694	1,202,132	1,200,519	1,613
Adult and continuing education	27,867	30,571	30,875	(304)
Total instruction	6,708,680	6,883,437	6,853,217	30,220
Support services:				
Pupil	277,697	284,724	282,188	2,536
Instructional staff	206,774	144,037	139,981	4,056
General administration	351,469	349,300	339,075	10,225
School administration	639,303	661,095	652,398	8,697
Business	155,662	164,214	161,357	2,857
Operations and maintenance	978,416	1,096,526	1,130,008	(33,482)
Transportation	690,493	723,333	754,071	(30,738)
Central	226,260	227,615	224,709	2,906
Other	25,000			
Total support services	3,551,074	3,650,844	3,683,787	(32,943)
Community services	28,296	27,632	26,640	992
Total expenditures	10,288,050	10,561,913	10,563,644	(1,731)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(19,193)	(5,663)	(3,339)	2,324
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of school assets	2,000	3,145	3,145	
Operating transfers in	12,500			
Operating transfers out	(209,000)	(215,484)	(215,484)	
Total other financing sources (uses)	(194,500)	(212,339)	(212,339)	
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (213,693)</u>	<u>\$ (218,002)</u>	<u>(215,678)</u>	<u>\$ 2,324</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,788,979	
End of year			<u>\$ 1,573,301</u>	



## **ADDITIONAL INFORMATION**

**OLIVET COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2006**

	<b>Special revenue fund</b>	<b>Debt service fund</b>	<b>Capital projects fund</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and equivalents	\$ 8,177	\$ 93,779	\$ 185,744	\$ 287,700
Investments	132,522			132,522
Accounts receivable	377			377
Taxes receivable		48,879		48,879
Due from other governmental units	2,562			2,562
Due from other funds	3,520			3,520
Inventory - food service	4,784			4,784
<b>TOTAL ASSETS</b>	<b>\$ 151,942</b>	<b>\$ 142,658</b>	<b>\$ 185,744</b>	<b>\$ 480,344</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accrued salaries and related items	\$ 1,950	\$	\$	\$ 1,950
Deferred revenue	3,719			3,719
Due to other funds	81			81
<b>TOTAL LIABILITIES</b>	<b>5,750</b>			<b>5,750</b>
<b>FUND BALANCES:</b>				
Reserved for inventory	4,784			4,784
Reserved for debt service		142,658		142,658
Reserved for capital projects			185,744	185,744
Undesignated	141,408			141,408
<b>TOTAL FUND BALANCES</b>	<b>146,192</b>	<b>142,658</b>	<b>185,744</b>	<b>474,594</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 151,942</b>	<b>\$ 142,658</b>	<b>\$ 185,744</b>	<b>\$ 480,344</b>

**OLIVET COMMUNITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2006**

	Special revenue fund	Debt service fund	Capital projects fund	Total nonmajor governmental funds
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$	\$ 904,176	\$	\$ 904,176
Investment income	50	1,055		1,105
Other	318,197		20,144	338,341
Total local sources	318,247	905,231	20,144	1,243,622
State sources	23,241	9,610		32,851
Federal sources	180,914			180,914
Total revenues	522,402	914,841	20,144	1,457,387
<b>EXPENDITURES:</b>				
Current :				
Athletics	305,767			305,767
School lunch	424,459			424,459
Capital outlay			164,000	164,000
Debt service:				
Principal repayment		691,624	14,400	706,024
Interest and other fiscal charges		484,864		484,864
Total expenditures	730,226	1,176,488	178,400	2,085,114
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(207,824)	(261,647)	(158,256)	(627,727)
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from land contract			144,000	144,000
Proceeds from school bond loan fund		181,000		181,000
Operating transfers in	215,484			215,484
Total other financing sources	215,484	181,000	144,000	540,484
<b>NET CHANGE IN FUND BALANCES</b>	7,660	(80,647)	(14,256)	(87,243)
<b>FUND BALANCES:</b>				
Beginning of year	138,532	223,305	200,000	561,837
End of year	\$ 146,192	\$ 142,658	\$ 185,744	\$ 474,594

**OLIVET COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006  
(with comparative totals for June 30, 2005)**

	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>Totals</b>	
			<b>2006</b>	<b>2005</b>
<b>ASSETS</b>				
Cash and equivalents	\$ 8,163	\$ 14	\$ 8,177	\$ 23,682
Investments	132,522		132,522	131,088
Accounts receivable	377		377	366
Due from other funds	1,434	2,086	3,520	12,301
Due from other governmental units	2,562		2,562	2,298
Inventory - food service	4,784		4,784	5,535
<b>TOTAL ASSETS</b>	<b>\$ 149,842</b>	<b>\$ 2,100</b>	<b>\$ 151,942</b>	<b>\$ 175,270</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accrued salaries and related items	\$ 516	\$ 1,434	\$ 1,950	\$ 2,287
Deferred revenue	3,719		3,719	3,765
Due to other funds	72	9	81	30,686
<b>TOTAL LIABILITIES</b>	<b>4,307</b>	<b>1,443</b>	<b>5,750</b>	<b>36,738</b>
<b>FUND BALANCES:</b>				
Reserved for inventory	4,784		4,784	5,535
Undesignated	140,751	657	141,408	132,997
<b>TOTAL FUND BALANCES</b>	<b>145,535</b>	<b>657</b>	<b>146,192</b>	<b>138,532</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 149,842</b>	<b>\$ 2,100</b>	<b>\$ 151,942</b>	<b>\$ 175,270</b>

**OLIVET COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2006  
(with comparative totals for the year ended June 30, 2005)**

	<b>School lunch fund</b>	<b>Athletics Fund</b>	<b>Totals</b>	
			<b>2006</b>	<b>2005</b>
<b>REVENUES:</b>				
Food sales	\$ 228,889	\$	\$ 228,889	\$ 218,476
Federal sources	180,914		180,914	160,978
State sources	23,241		23,241	14,358
Investment income	34	16	50	138
Athletic events		89,308	89,308	104,060
Total revenues	433,078	89,324	522,402	498,010
<b>EXPENDITURES:</b>				
Salaries and wages	138,975	163,699	302,674	293,565
Employee benefits	48,025	49,667	97,692	88,584
Supplies and other expenses	48,477		48,477	30,795
Food costs	188,982		188,982	164,843
Athletic expenses		92,401	92,401	112,342
Total expenditures	424,459	305,767	730,226	690,129
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	8,619	(216,443)	(207,824)	(192,119)
<b>OTHER FINANCING SOURCES:</b>				
Operating transfer in from general fund		215,484	215,484	209,998
<b>NET CHANGE IN FUND BALANCES</b>	8,619	(959)	7,660	17,879
<b>FUND BALANCES, beginning of year</b>	136,916	1,616	138,532	120,653
<b>FUND BALANCES, end of year</b>	<u>\$ 145,535</u>	<u>\$ 657</u>	<u>\$ 146,192</u>	<u>\$ 138,532</u>

**OLIVET COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
NONMAJOR COMBINING BALANCE SHEET  
JUNE 30, 2006  
(with comparative totals for June 30, 2005)**

	<b>2002 debt</b>	<b>2003 debt</b>	<b>Durant debt</b>	<b>Totals</b>	
				<b>2006</b>	<b>2005</b>
<b>ASSETS</b>					
Cash and equivalents	\$ 43,103	\$ 50,676	\$	\$ 93,779	\$ 223,252
Taxes receivable	19,552	29,327		48,879	53
<b>TOTAL ASSETS</b>	<b>\$ 62,655</b>	<b>\$ 80,003</b>	<b>\$</b>	<b>\$ 142,658</b>	<b>\$ 223,305</b>
<b>FUND BALANCES</b>					
Fund balances:					
Reserved for debt service	<u>\$ 62,655</u>	<u>\$ 80,003</u>	<u>\$</u>	<u>\$ 142,658</u>	<u>\$ 223,305</u>

**OLIVET COMMUNITY SCHOOLS**  
**DEBT SERVICE FUNDS**  
**NONMAJOR COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2006**  
**(with comparative totals for the year ended June 30, 2005)**

	<b>2002</b>	<b>2003</b>	<b>Durant</b>	<b>Totals</b>	
	<b>debt</b>	<b>debt</b>	<b>debt</b>	<b>2006</b>	<b>2005</b>
<b>REVENUES:</b>					
Local sources:					
Current taxes	\$ 359,918	\$ 544,258	\$	\$ 904,176	\$ 1,217,597
Investment income	811	244		1,055	999
Other					5,453
State sources			9,610	9,610	
Total revenues	<u>360,729</u>	<u>544,502</u>	<u>9,610</u>	<u>914,841</u>	<u>1,224,049</u>
<b>EXPENDITURES:</b>					
Principal repayment	255,000	430,000	6,624	691,624	670,000
Interest and other fiscal charges	<u>311,980</u>	<u>169,898</u>	<u>2,986</u>	<u>484,864</u>	<u>723,356</u>
Total expenditures	<u>566,980</u>	<u>599,898</u>	<u>9,610</u>	<u>1,176,488</u>	<u>1,393,356</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER (UNDER) EXPENDITURES</b>	(206,251)	(55,396)		(261,647)	(169,307)
<b>OTHER FINANCING SOURCES:</b>					
Proceeds from school bond loan fund	<u>181,000</u>			<u>181,000</u>	<u>198,600</u>
<b>NET CHANGE IN FUND BALANCES</b>	(25,251)	(55,396)		(80,647)	29,293
<b>FUND BALANCES:</b>					
Beginning of year	<u>87,906</u>	<u>135,399</u>		<u>223,305</u>	<u>194,012</u>
End of year	<u>\$ 62,655</u>	<u>\$ 80,003</u>	<u>\$</u>	<u>\$ 142,658</u>	<u>\$ 223,305</u>

**OLIVET COMMUNITY SCHOOLS  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Balance 6/30/2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2006</u>
High School:				
Business	\$ 455	\$	\$	\$ 455
1993	1			1
1997	(48)			(48)
1998	372			372
2000	1,114			1,114
2002	375			375
2003	1,533			1,533
2004	(89)			(89)
2005	1,702	1,019		2,721
2006	3,126	158	684	2,600
2007	3,397	3,477	3,363	3,511
2008	504	3,305	1,638	2,171
2009		2,706	2,294	412
FFA	181	10,485	10,432	234
Academic awards	1,650	1,410	3,060	
Art club	44			44
Choir patron	3,621	11,369	13,217	1,773
Choir trip	128	3,647	678	3,097
Drama	1,631	5,452	6,016	1,067
In house	1,744	11,022	12,153	613
Interest	678	35		713
Library	(582)			(582)
Newspaper	18			18
Student government	3,226	4,056	4,449	2,833
Volleyball	688	520		1,208
Arts festival	244			244
National Honor Society	1,704	41,870	40,811	2,763
Plan PSA tests	135	455	505	85
Quiz bowl	4			4
Unknown	5			5
Year book previous	(1,468)			(1,468)



**OLIVET COMMUNITY SCHOOLS  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Balance 6/30/2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2006</u>
High School (Concluded):				
Year book 2002-03	\$ (1,260)	\$ 1,260	\$	\$
Year book 2003-04	637		637	
Year book 2004-05	6,947	1,458	8,405	
Year book 2005-06		4,595	530	4,065
Physical Ed	414			414
Teacher of the Year		1,000		1,000
Timothy Holton Fund		130		130
OHS Donations		338	293	45
Environmental Club		14		14
Wrestling		1,579	1,578	1
Cheerleading	444			444
SADD	239			239
Boys basketball	(535)	2,678	2,794	(651)
Senior send off	1,696	14,048	15,066	678
Soccer	958	500		1,458
Band boosters	1,000	36,321	36,343	978
Softball	644			644
Total high school	<u>37,277</u>	<u>164,907</u>	<u>164,946</u>	<u>37,238</u>
Middle School:				
4th Grade trip	2,188	30,313	28,054	4,447
4th Grade Chavez	(3)			(3)
4th Gehrig	70	506	543	33
4th Wilbourn	668	263	581	350
4th Wholehan		1,153	725	428
4th Toburen	97	242	377	(38)
5th Vistemaker	647	113	700	60
5th Wheeler	324	99	454	(31)
5th Worden	753	374	868	259
5th Turner		777	790	(13)

**OLIVET COMMUNITY SCHOOLS  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Balance 6/30/2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2006</u>
Middle School (Continued):				
5th Olmstead	\$	\$ 1,030	\$ 354	\$ 676
6th Grade account	2,709	55	2,734	30
6th Ethiopian		245	110	135
7th Grade account	1,011	300	1,011	300
8th Grade account	101	2,780	3,672	(791)
8th Grade CHICAGO	910			910
"Adults Who Care"	334			334
Band account	119			119
Baseball account	323	2,033	1,296	1,060
Grasp	457	954	1,028	383
Awards banquet	60			60
Board of Education flower fund			74	(74)
Book fair	1,693	10,654	9,142	3,205
Choir	10			10
Coffee	2,661	4,758	7,099	320
Fundraiser	4,407	25,473	24,640	5,240
Interest	2,306	68		2,374
Office	2,970	1,668	3,238	1,400
Vending - Savings		505		505
Vending Snacks		523	163	360
Vending Beverages		1,627	1,381	246
4-5 Student Council		446	260	186
WKK Fitness Grant			150	(150)
5th Flood		754	470	284
Science Activity		1,046	564	482
Mathematics Activity		1,082	153	929
Spoelstra	135		135	
Staff scholar	105			105
Student Council	911	3,492	2,913	1,490
Summer school	3,172			3,172

**OLIVET COMMUNITY SCHOOLS  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2006**

	<b>Balance 6/30/2005</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance 6/30/2006</b>
Middle School (Concluded):				
Marchett Environmental	\$ 561	\$ 1,256	\$ 344	\$ 1,473
Math/Science Sly	33	60		93
Scholastic	330		330	
St Jude's Math-A-Thon	60	413	413	60
Sweatshirt Taylor	108			108
Ms. Daly physical education	830	500	645	685
5th Grade camp	2,501	12,044	10,778	3,767
4-5 Teachers pop fund	219	1,489	1,339	369
Ski club	(268)	1,660	1,812	(420)
Kolar SPED room fund	216	300		516
Social studies		1,196		1,196
ELA activity		1,276		1,276
Movie Night SPED Ed	11	110		121
SAP Club	903			903
Art club	713	20	233	500
Total middle school	<u>35,355</u>	<u>113,657</u>	<u>109,573</u>	<u>39,439</u>
Elementary School:				
KDG Wine	437	1,584	1,513	508
KDG Sheldon	986	793	1,028	751
KDG Gessner	22	990	706	306
KDG Hubbard-Cool	576	921	1,167	330
KDG Andrews		1,373	1,098	275
1st Porter	827	501	858	470
1st London	821	1,001	339	1,483
1st Johnson	(6)	674	320	348
1/2 Shrontz - Tatrow	534	1,494	1,446	582
1/2 Wixson	385	1,762	1,805	342
2nd Krauss	127	916	903	140
2nd Fisk	1,195	533	585	1,143
3rd Amey	101			101
3rd Crawford	(91)	420	155	174
3rd Johnson	150	556	691	15

**OLIVET COMMUNITY SCHOOLS  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Balance 6/30/2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2006</u>
Elementary School (Concluded):				
3rd Wank	\$ 1,108	\$ 289	\$ 807	\$ 590
3rd Walker	120	188	394	(86)
Book Fair	861	15,449	15,325	985
Spartan Labels	98	1,594	547	1,145
Fund raiser	27	28,781	28,751	57
Interest	128		53	75
Office	727	7,249	5,829	2,147
Pop fund	840	2,572	2,499	913
Lori Post Fund	898	2,037	2,388	547
Palacco	3,500		3,500	
Science Bucienki	84		76	8
Sum + Fun	1,765		862	903
Special education	14	418	363	69
Unknown	78			78
Johncock Music	14			14
Reg Grant/Davis		250	253	(3)
Project fund	4,272	8,566	5,246	7,592
	<u>20,598</u>	<u>80,911</u>	<u>79,507</u>	<u>22,002</u>
Total elementary school	<u>\$ 93,230</u>	<u>\$ 359,475</u>	<u>\$ 354,026</u>	<u>\$ 98,679</u>

**OLIVET COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2006**

Bond issue dated November 19, 2002 for erecting, furnishing and equipping an addition or additions to the Fern Persons Elementary School and Middle School/High School including an auditorium, classrooms and office space; partially remodeling, furnishing and refurnishing, equipping and re-equipping and acquiring, installing and equipping technology for the Fern Persons Elementary School and Middle School/High School buildings; improving athletic facilities; partially remodeling, furnishing and re-furnishing, equipping and re-equipping the existing gymnasium and cafeteria; developing and improving the site; and to pay the costs of issuing the bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 285,000	\$ 37,850	\$ 37,850	2007	\$ 360,700
305,000	33,433	33,433	2008	371,866
320,000	28,095	28,095	2009	376,190
340,000	21,695	21,695	2010	383,390
360,000	14,895	14,895	2011	389,790
380,000	7,695	7,695	2012	395,390
<u>\$ 1,990,000</u>	<u>\$ 143,663</u>	<u>\$ 143,663</u>		<u>\$ 2,277,326</u>

The above bonds have interest rates from 2.15% to 5.125%.

**OLIVET COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2006**

Bond issue dated March 26, 2003 for the purpose of refunding the School District's outstanding 1993 refunding bonds which are due and payable in the years 2005 through 2020.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 410,000	\$ 80,458	\$ 80,458	2007	\$ 570,916
400,000	76,358	76,358	2008	552,716
390,000	71,458	71,458	2009	532,916
375,000	65,998	65,998	2010	506,996
365,000	60,373	60,373	2011	485,746
355,000	54,533	54,533	2012	464,066
340,000	48,675	48,675	2013	437,350
355,000	42,895	42,895	2014	440,790
345,000	36,683	36,683	2015	418,366
330,000	30,473	30,473	2016	390,946
325,000	24,368	24,368	2017	373,736
310,000	18,193	18,193	2018	346,386
305,000	12,148	12,148	2019	329,296
295,000	6,048	6,048	2020	307,096
<u>\$ 4,900,000</u>	<u>\$ 628,661</u>	<u>\$ 628,661</u>		<u>\$ 6,157,322</u>

The above bonds have interest rates from 2.00% to 4.10%.

**OLIVET COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2006**

Bond issue dated December 15, 2005 for the purpose of refunding the School District's outstanding 2002 general obligation bonds which are due and payable in the years 2007 through 2028.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 25,000	\$ 200,559	\$ 200,559	2007	\$ 426,118
25,000	200,122	200,122	2008	425,244
30,000	199,684	199,684	2009	429,368
30,000	199,159	199,159	2010	428,318
30,000	198,634	198,634	2011	427,268
30,000	197,884	197,884	2012	425,768
435,000	197,134	197,134	2013	829,268
460,000	186,259	186,259	2014	832,518
485,000	174,759	174,759	2015	834,518
505,000	162,634	162,634	2016	830,268
525,000	152,534	152,534	2017	830,068
540,000	142,034	142,034	2018	824,068
560,000	131,234	131,234	2019	822,468
580,000	120,034	120,034	2020	820,068
600,000	108,434	108,434	2021	816,868
615,000	96,434	96,434	2022	807,868
635,000	84,134	84,134	2023	803,268
655,000	71,434	71,434	2024	797,868
675,000	58,334	58,334	2025	791,668
695,000	44,413	44,413	2026	783,826
700,000	29,644	29,644	2027	759,288
695,000	14,769	14,769	2028	724,538
<u>\$ 9,530,000</u>	<u>\$ 2,970,260</u>	<u>\$ 2,970,260</u>		<u>\$ 15,470,520</u>

The above bonds have interest rates from 3.5% to 4.25%.

**OLIVET COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2006**

\$229,022 Durant Bond issued November 24, 1998:

Principal due May 1,	Interest due May 1,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 31,654	\$ 13,696	2007	\$ 45,350
7,270	2,340	2008	9,610
7,616	1,994	2009	9,610
7,979	1,631	2010	9,610
8,359	1,252	2011	9,611
8,756	854	2012	9,610
9,173	437	2013	9,610
<u>\$ 80,807</u>	<u>\$ 22,204</u>		<u>\$ 103,011</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.



**OLIVET COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2006**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest payments</u>	<u>Interest expense</u>	<u>Loan balance</u>
1996	\$ 2,019,158	\$	\$ 233,407	\$ 2,252,565
1997	287,804		131,316	2,671,685
1998	244,237		151,526	3,067,448
1999	275,007		163,703	3,506,158
2000	134,109		183,707	3,823,974
2001	111,537		191,936	4,127,447
2002	55,165	(125,000)	175,225	4,232,837
2003	102,170		144,788	4,479,795
2004	216,397		130,821	4,827,013
2005	198,600		147,255	5,172,868
2006	<u>181,000</u>	<u></u>	<u>216,833</u>	<u>5,570,701</u>
Total June 30, 2006	<u>\$ 3,825,184</u>	<u>\$ (125,000)</u>	<u>\$ 1,870,517</u>	<u>\$ 5,570,701</u>

**OLIVET COMMUNITY SCHOOLS  
LAND CONTRACT  
JUNE 30, 2006**

Land contract due in annual installments of \$10,253 with balloon payment due April 30, 2009, interest at 3.99%

Principal due April 30,	Interest due	Debt service requirement for fiscal year	
	April 30,	June 30,	Amount
\$ 5,082	\$ 5,171	2007	\$ 10,253
5,284	4,969	2008	10,253
119,234	4,757	2009	123,991
<u>\$ 129,600</u>	<u>\$ 14,897</u>		<u>\$ 144,497</u>



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Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Olivet Community Schools  
Olivet, Michigan

August 4, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools as of and for the year ended June 30, 2006, which collectively comprise Olivet Community Schools' basic financial statements and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Olivet Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education  
Olivet Community Schools  
Olivet, Michigan

August 4, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olivet Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Olivet Community Schools in a separate letter dated August 4, 2006.

This report is intended solely for the information and use of the board of education, management and U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Mama, Costeniser & Ellis, P.C.*

Certified Public Accountants



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August 4, 2006

To the Board of Education  
Olivet Community Schools  
Olivet, Michigan

In planning and performing our audit of the financial statements of Olivet Community Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 4, 2006, on the financial statements of Olivet Community Schools.

### **Prior Year Comments**

#### **Bonds - Not yet finalized**

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Acts 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

### **Other Comments**

Other comments have been adequately addressed.

### **Current Year Comments**

#### **Budget Enforcement by the Michigan Department of Education**

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the district's current budget procedures are adequate.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



To the Board of Education  
Olivet Community Schools  
Olivet, Michigan

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August 4, 2006

This report is intended solely for the information and use of Olivet Community Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mama, Costenaro & Ellis, P.C.*



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August 4, 2006

To the Finance Committee  
Olivet Community Schools  
Olivet, Michigan

We have audited the financial statements of Olivet Community Schools for the year ended June 30, 2006, and have issued our report thereon dated August 4, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Olivet Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Olivet Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Olivet Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Estimates have been used in calculating the liability for employee severance benefits. The estimated liability is approximately \$625,500. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Olivet Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). During the audit, adjustments were made to record transactions in the debt service and capital projects funds. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Olivet Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Olivet Community Schools' financial reporting process. All adjustments have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Olivet Community Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Olivet Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Finance Committee, Board of Directors, and management of Olivet Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mayer, Costenaro & Ellis, P.C.*